RUTLAND RAILWAY CORPORATION

1963 ANNUAL REPORT

TO OUR STOCKHOLDERS:

The Corporation has, through the past year, made considerable progress toward resolving its problems.

The following are the highlights of that progress:

In June of 1963, it entered into agreements with the various labor unions representing its former employees, which agreements disposed of all claims, cancelled all contracts and working agreements and disposed of all litigation arising from the abandonment for a total consideration (in lieu of so-called separation or severance pay) of $300,000.

The agreements with the unions cleared the way for an Interstate Commerce Commission order setting August 1, 1963 as the effective date for our authority to abandon. The final abandonment order, in turn, cleared the way for an agreement with the State of Vermont leading to the sale to the State of approximately 131 miles of right of way, track and some properties for a price of $1,850,000 of which $300,000 was received as a down payment in 1963. This sale was consummated in January of 1964.

The State of Vermont has also shown a definite interest in purchasing approximately 28 miles of right of way and track from Bellows Falls to north of Ludlow. The Railway has received $60,000 as a down payment or binder on this portion and negotiations are being progressed as to the final purchase price.

On the New York State section of the line, the Railway, subject to certain conditions, sold in 1964 its Ogdensburg yard property together with approximately 25 miles of its right of way and track to the Ogdensburg Bridge and Port Authority. The total overall price, provided the conditions are met, is $700,000 of which $74,500 was received in 1964. The conditions of the sale are, briefly, to the effect that if the Authority is unable to enter into a grain storage agreement by June 15, 1964, it may at its option reconvey all of the property to the Rutland and if it is not able to have satisfactory rail service during a period ending on June 15, 1967 it may at its option reconvey to the Rutland the 25 miles of right of way and track.

The Corporation has during 1964 to date sold four of its locomotives for $150,000. The one remaining locomotive is being held for salvage operations.

A considerable amount of material and equipment has been sold, principally to Vermont Railway Inc. This is the organization that in January of 1964 began operations over the right of way and track purchased by the State.

Approximately 152 miles of right of way and track remain to be disposed of. There is some hope that portions of the remaining right of way and track will be sold to the States of Vermont and New York intact; however, should such sales not materialize in the near future, salvage operations will be started.

Through the past year, the Management and the Board of Directors have investigated the desirability of a program of diversification. In connection with this program the Board has explored the possibilities of acquiring numerous businesses. The Board has not found anything which it feels it should recommend to the Stockholders as of this date.

The Directors and Officers again wish to express their appreciation for the support of our Stockholders.

For the Board of Directors

PRESIDENT

Rutland Railwa

Balance Sheet, D

ASSETS

CURRENT ASSETS:		
Cash		$ 81,329
Temporary Cash Investments (including $50,000 deposited in escrow against casualty claim—see reserve contra)		440,000
Special Deposits		34,694
Accounts Receivable:		
Equipment Rentals	$ 60,718	
Other	56,032	116,750
Unexpired Insurance Premiums		6,745
Total Current Assets		679,518
PROPERTIES:		
Road, Equipment, Replacement Parts and Supplies, and Miscellaneous Real Estate—at net book value (subject to reduction by anticipated losses upon disposition—estimated at $3,200,000; see Note)		9,705,899
OTHER ASSETS		29,914
TOTAL ASSETS		$10,415,331

Note to Financ

On September 3, 1963 the Interstate Commerce Commission issued a modified order establishing August 1, 1963 as the effective date of its 1962 order authorizing the abandonment of the Corporation's entire line of railroad and its operations, which were discontinued in September 1961 due to a strike by the operating brotherhoods. In accordance with these orders, the Corporation has proceeded with the disposal of certain properties.

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ecember 31, 1963

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Audited Accounts and Wages Payable		$ 31,565
Employee Withholdings		22,575
Interest and Dividends Matured Unpaid		9,893
Deposits on Properties Designated for Purchase by State of Vermont		360,000
Accrued Real Estate and Other Taxes		160,132
Casualty and Other Claims		26,617
Other		28,804
Total Current Liabilities		639,586
CASUALTY AND OTHER RESERVES		68,114
TOTAL LIABILITIES		707,700
SHAREHOLDERS' EQUITY:		
Capital Stock:		
5% Cumulative Preferred, $100 Par Value—Authorized and Outstanding, 46,804 shares (entitled to maximum dividend arrearage of 15%—$702,060)	$ 4,680,400	
Common, $100 Par Value—Authorized and Outstanding, 60,112 shares	6,011,200	
Capital Surplus	181,406	
Deficit	(1,165,375)	
NET SHAREHOLDERS' EQUITY (subject to reduction by anticipated losses upon disposition of properties—estimated at $3,200,000; see Note)		9,707,631
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$10,415,331

al Statements

No provision has been made in the accounts for anticipated losses on properties not disposed of as of December 31, 1963. Based upon the estimated net salvage value of properties as shown in the abandonment application filed with the Interstate Commerce Commission (in December 1961) and upon subsequent disposal negotiations, it is the opinion of management that the disposal of all remaining properties would result in losses aggregating an estimated $3,200,000. Such losses on future disposals will reduce the Corporation's shareholders' equity.

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Rutland Railway Corporation

STATEMENT OF REVENUE, EXPENSES AND DEFICIT

For the Year Ended December 31, 1963

REVENUE:		
Equipment Rentals		$ 356,760
Other Rentals		62,756
Switching		71,065
Freight—From Special Grain Shipments		40,275
Proceeds of Easements and Sales of Land, Etc. (net)		24,577
Interest Earned		4,335
Other		6,803
TOTAL REVENUE		566,571
EXPENSES:		
Depreciation (normal provisions—applicable to road and equipment properties except certain parts of track structure)	$ 249,994	
Real Estate and Payroll Taxes	149,784	
Professional Services	57,431	
Interest on Equipment Obligations	3,305	
Other—Maintenance of Properties, Administrative and General Expenses	440,142	
TOTAL EXPENSES		900,656
NET LOSS		334,085
DEFICIT AT BEGINNING OF YEAR		569,561
CHARGES DURING THE YEAR:		
Settlement Payments With Labor Organizations (less $89,053 provided in 1962)	210,947	
Write-down of Investment in Liquidated Affiliate	32,220	
Other Charges—net	18,562	
TOTAL CHARGES		261,729
DEFICIT AT END OF YEAR		$ 1,165,375

(See Note to Financial Statements)

HASKINS & SELLS
ACCOUNTANTS

80 Federal Street
Boston 02110

ACCOUNTANTS' OPINION

RUTLAND RAILWAY CORPORATION:

We have examined the balance sheet of Rutland Railway Corporation as of December 31, 1963 and the related statement of revenue, expenses and deficit for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements have been prepared without providing for anticipated losses, estimated at $3,200,000, upon the disposition of the Corporation's properties as permitted under orders of the Interstate Commerce Commission authorizing abandonment of the railroad line and operations, as described in the Note to the Financial Statements. Specifically, the amounts in such financial statements have not been reduced to reflect (a) the estimated net salvage values of properties and (b) the effect of the estimated losses upon shareholders' equity.

In our opinion, except for and subject to the effect of the matter described in the preceding paragraph, the accompanying balance sheet and statement of revenue, expenses and deficit present fairly the financial position of the Corporation at December 31, 1963 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 13, 1964

Haskins & Sells

Middlebury College